



BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Results of the Winter 2013–14 Survey | Vol. 10.4 | 13 January 2014

The winter Business Outlook Survey provides some positive signs for the economic outlook, notably for exports and investment, although responses do not yet appear to suggest a significant strengthening. For many businesses, weak demand and domestic uncertainty continue to temper sales expectations and expansion plans.

Overview

- While not yet reporting a material pickup in past sales activity, businesses are hopeful that they will see an improvement over the next 12 months. Assessments of business activity vary across regions and sectors, however. Some firms have seen encouraging signs, while others remain uncertain about the timing of any notable improvement.
- Firms' sales expectations are supported by a gradually strengthening outlook for U.S. economic growth, and those with international sales report that orders from customers outside Canada have generally improved compared with 12 months ago. Still, many note that domestic conditions remain subdued. More businesses are planning increases in investment spending, but are largely focusing on shorter-term projects aimed at upgrading existing equipment and technology. Others plan to meet any additional demand through modest hiring.
- Indicators of pressures on production capacity have declined. Firms anticipate modest cost pressures over the next 12 months, but soft demand and strong competition are limiting the degree to which these cost pressures are expected to pass through to output prices. Inflation expectations continue to be concentrated within the Bank's inflation-control range of 1 to 3 per cent, with most firms expecting inflation to be in the bottom half of that range.
- Credit conditions are little changed.

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The Winter 2013–14 survey was conducted from 18 November to 12 December 2013. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding. Additional information on the survey and its content is available on the Bank of Canada's website. The survey results summarize opinions expressed by the respondents and do not necessarily reflect the views of the Bank of Canada.

Business Activity

The balance of opinion on past sales increased but remains just below zero (Chart 1), as many firms continued to report slower or negative sales growth over the past 12 months. The balance of opinion on future sales growth is essentially unchanged and remains solidly positive (Chart 2), in many cases continuing to reflect expectations that sales volumes will stabilize or improve modestly following a period of decline.

Expectations of improving sales growth are uneven across regions and sectors, but are generally more positive among firms that are benefiting directly or indirectly from increasing global activity. Businesses report that orders from customers outside Canada have generally improved compared with 12 months ago. Notwithstanding gradually strengthening expectations for U.S. economic growth, many firms continue to cite difficulties in growing market share in the face of tough competition from U.S. and other foreign firms. Firms primarily serving domestic markets also expect demand conditions to remain challenging.

Chart 1: While firms report little change in sales growth over the past 12 months...

Balance of opinion^a

Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

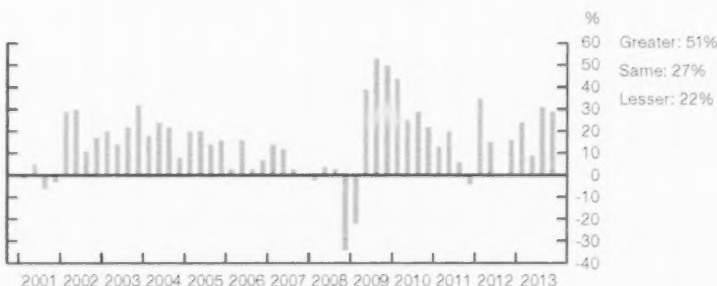


a. Percentage of firms reporting faster growth minus the percentage reporting slower growth

Chart 2: ...they continue to expect some improvement over the next 12 months

Balance of opinion^a

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting faster growth minus the percentage expecting slower growth

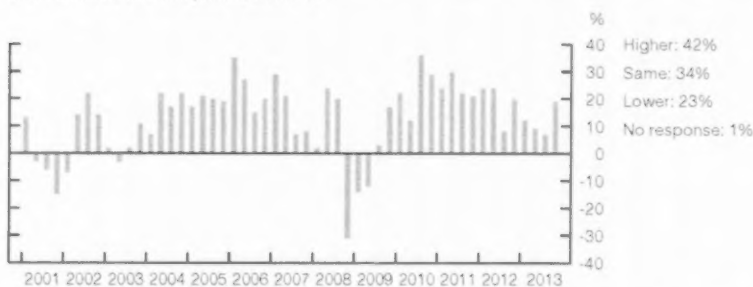
Following a period of soft investment intentions, the balance of opinion on investment in machinery and equipment rose in the winter survey (Chart 3). The increase was concentrated in the services sector, where more firms reported plans to upgrade existing equipment and technology. Intentions to increase investment remain subdued among firms in the goods sector, however. Overall, few firms cited plans for major investment projects to expand capacity, and many reported that uncertainty, particularly on the domestic side, continues to influence the timing and nature of new investments.

The balance of opinion on employment intentions moved up (Chart 4), as more service sector firms anticipate modest hiring to meet their sales expectations. The rise in hiring intentions among service firms more than offset a decline among those in the goods sector.

Chart 3: While not widespread across sectors, the balance of opinion on investment in machinery and equipment moved up...

Balance of opinion^a

Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

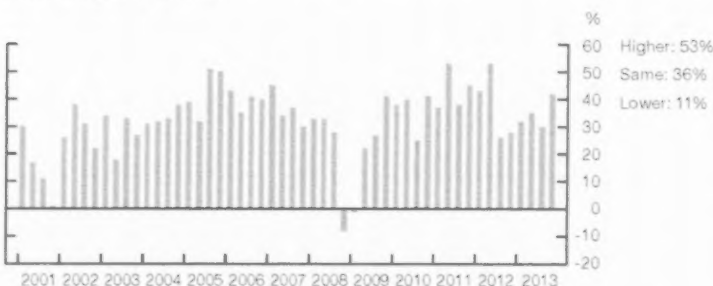


a. Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: ...along with plans to increase employment

Balance of opinion^a

Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?



a. Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Pressures on Production Capacity

The percentage of firms reporting that they would face “some difficulty” meeting an unexpected increase in demand returned to a lower level in the winter survey (Chart 5). Fewer firms anticipate that they would need to draw on contingent sources of capacity to meet additional demand, in an environment of softer-than-expected sales or given recent investments aimed at utilizing existing capital more effectively. Firms continue to wait for signs of a notable strengthening in demand before proceeding with major expansions to increase capacity. Some report that, in addition to their Canadian operations, they would be able to draw on their facilities in other countries to meet any unexpected increases in foreign demand.

The percentage of firms reporting that labour shortages are restricting their ability to meet demand eased in the winter survey (Chart 6). As in the previous survey, instances of labour shortages were not widespread and were cited largely in relation to hiring for specific positions, skill sets or regions. In general, firms consider the intensity of labour shortages to be similar to the situation 12 months ago.

Chart 5: Fewer firms anticipate difficulty meeting an unexpected increase in demand...

How would you rate the current ability of your firm to meet an unexpected increase in demand?

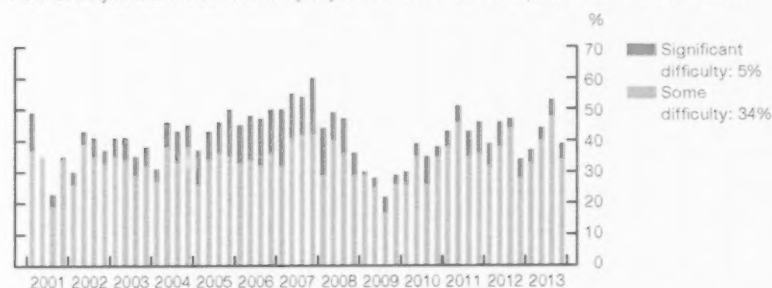
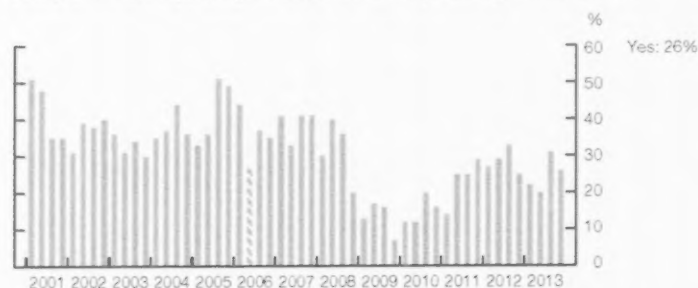


Chart 6: ...and fewer report facing labour shortages that would restrict their ability to meet demand

Does your firm face any shortages of labour that restrict your ability to meet demand?



/// The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

Prices and Inflation

While a majority of firms continue to expect input price inflation to remain about the same as over the past 12 months, the balance of opinion rose in the winter survey after a prolonged period close to zero (Chart 7). Some businesses expect modest cost pressures, reflecting in part an anticipated firming in the prices of some of the commodities used in their production processes following a period of price declines. Others cite the recent depreciation of the Canadian dollar or higher costs related to rents, leasing and electricity as factors driving their expectations for input prices.

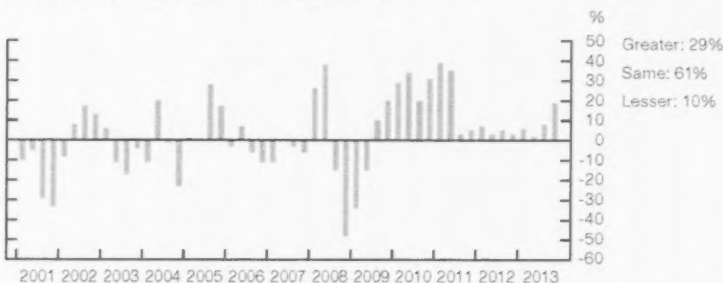
The balance of opinion on output prices remains positive and is little changed from the autumn survey (Chart 8). Some firms report a desire to pass on higher input costs or to rebuild margins after a period of weakness. Nonetheless, firms continue to indicate that, overall, lacklustre sales growth and strong competition are exerting downward pressure on output prices.

Inflation expectations are largely unchanged from the autumn survey and remain concentrated within the Bank's 1 to 3 per cent inflation-control range, with approximately two-thirds of firms expecting total CPI inflation to stay in the bottom half of that range over the next two years (Chart 9). Firms continue to cite weak demand and recent subdued inflation as factors influencing their inflation expectations.

Chart 7: Firms anticipate some modest cost pressures...

Balance of opinion^a

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?

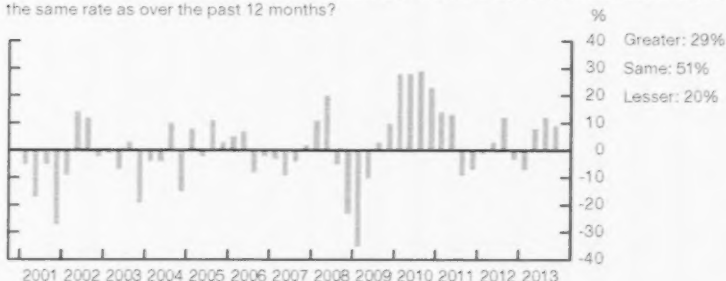


a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Chart 8: ...and expect output prices to increase at a somewhat greater rate, tempered by weak demand and competitive pressures

Balance of opinion^a

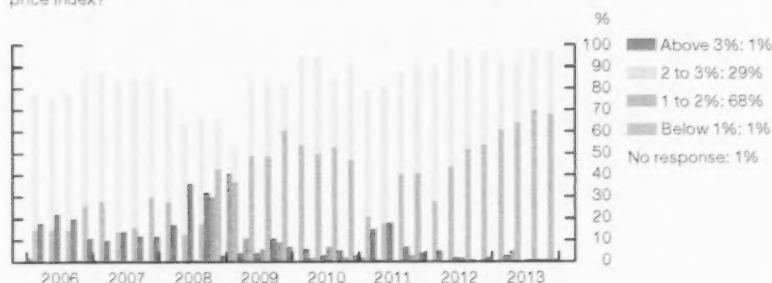
Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Chart 9: Inflation expectations remain subdued and concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?

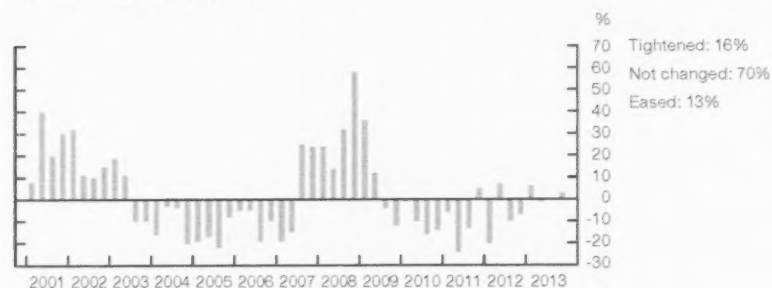
**Credit Conditions**

The balance of opinion on credit conditions is close to zero, indicating little change in credit conditions over the past three months (Chart 10). Most firms report that credit is easy, or relatively easy, to access. Those citing difficulty were often smaller firms or firms focused mainly on domestic markets.

Chart 10: Firms report little change in credit conditions over the past three months

Balance of opinion^a

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



a. Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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